

Message Text

PAGE 01 STATE 095822

72

ORIGIN EB-05

INFO OCT-01 ISO-00 STR-04 /010 R

66650

DRAFTED BY EB/OT/TA:WTADAMS:MAM

APPROVED BY EB/OT/TA:WBARRACLOUGH

STR:JMCNAMARA

----- 092325

R 091352Z MAY 74

FM SECSTATE WASHDC

TO USMISSION GENEVA

USMISSION OECD PARIS

UNCLAS STATE 095822

FOLLOWING IS REPEAT OTTAWA 1362 SENT ACTION SECSTATE MAY 7:

QTE UNCLAS OTTAWA 1362

DELIVER EUR SMITH AT OPEN OF BUSINESS MAY 7

E.O. 11652: N/A

TAGS: ECON EFIN CA

SUBJECT: FEDERAL BUDGET FIGHTS INFLATION

1. SUMMARY. MINFIN TURNER PRESENTED FEDERAL BUDGET IN HOUSE OF COMMONS ADDRESS EVENING OF MAY 6. MEASURES ARE DELICATELY BALANCED TO "FIND REVENUES IN WAYS THAT HURT LEAST, TO APPLY THEM TO HELP PEOPLE MOST IN NEED OF HELP AND TO DO SO WITHOUT CONTRIBUTING TO PRICE INCREASES ON ESSENTIAL GOODS OR IMPEDING EXPANSION OF SUPPLY." IN TERMS FISCAL IMPACT, MOST SIGNIFICANT MEASURE IS INCREASE IN BASIC RATE OF MINING AND PETROLEUM CORPORATE PROFITS TO 50 PERCENT BY 1976. TEN PERCENT CORPORATE INCOME TAX SURCHARGE PROPOSED FOR ONE-YEAR PERIOD; EXCISE TAXES INCREASED FOR BIG CARS AND OTHER HIGH ENERGY-CONSUMING VEHICLES; LIQUOR AND TOBACCO. THE PROCEEDS FROM THESE REVENUE-PRODUCING MEASURES WILL BE OFFSET BY C\$50. TAX CUT FOR LOWER-INCOME TAXPAYERS; REMOVAL OF FEDERAL SALES TAX ON CLOTHING; FOOTWEAR; BICYCLES AND MUNICIPAL TRANSIT

UNCLASSIFIED

PAGE 02 STATE 095822

EQUIPMENT; FURTHER EXTENSION OF TEMPORARY TARIFF REDUCTIONS PROPOSED IN LAST BUDGET; CASH BONUSES TO SAVINGS BONDS HOLDERS AND DOUBLING OF INDIVIDUAL TOURIST ALLOWANCE FROM C\$25 TO C\$50. END SUMMARY.

2. TURNER PREFACED BUDGET SPEECH WITH REVIEW OF RECENT ECONOMIC DEVELOPMENTS, ACKNOWLEDGING THAT INTERNATIONAL EVENTS HAD LESS IMPACT ON CANADIAN ECONOMY THAN ON OTHERS AND NOTING THAT ECONOMIC OUTLOOK IS BRIGHT. HE CHARACTERIZED THE PURPOSE OF BUDGET AS TO 1) REINFORCE ATTACK ON INFLATION BY ENCOUAGING INCREASED SUPPLIES OF GOODS AND SERVICES; 2) ACT DIRECTLY AGAINST HIGH PRICES WHERE PRACTICAL; AND 3) ALLEVIATE FURTHER THE ADVERSE IMPACT OF RISING PRICES ON ALL CANADIANS AND PARTICULARLY LOW-INCOME CANADIANS. BUDGETARY PROPOSALS WILL HAVE EFFECT OF RAISING NEW REVENUES TOTALLING APPROXIMATELY C\$900 MILLION WHILE INCREASING EXPENDITURES BY ROUGHTLY THE SAME AMOUNT. FOLLOWING ARE MAJOR PROPOSALS AFFECTING REVENUE LEVELS.

3. MEASURES INCREASING REVENUES

A. RESOURCES MEASURES: TURNER NOTED RECENT HIGH PROFITS IN RESOURCE INDUSTRIES AND THAT "IT IS ESSENTIAL TO ENSURE THAT ALL PEOPLE OF CANADA DERIVE A FAIR SHARE OF THE SUBSTANTIALLY INCREASED REVENUES THAT FLOW FROM THE HIGHER VALUE PLACED BY THE WORLD ON THESE RESOURCES". HE THEN PROPOSED THAT "BASIC" RATE OF CORPORATE TAX ON PRODUCTION PROFITS FROM MINERALS, OIL, AND GAS BE INCREASED TO 50 PERCENT. THIS WILL BE DONE BY INCREASING TAX RATE BY 2 PERCENTAGE POINTS FOR 1974, 3 POINTS IN 1975, AND 4 POINTS IN 1976, AND THEREAFTER. THE 50 PERCENT RATE COMPARES WITH A 46 PERCENT RATE THAT WOULD HAVE APPLIED IN 1976 IN THE ABSENCE OF THESE PROPOSALS. AT SAME TIME, PROVINCIAL GOVERNMENT ROYALTIES, MINING TAXES AND SIMILAR PAYMENTS WILL NO LONGER BE DEDUCTIBLE BY MINING AND PETROLEUM CORPORATIONS IN COMPUTING TAXABLE INCOME. THERE WILL ALSO BE AN EXTRA ABATEMENT FROM FEDERAL INCOME TAX FROM TAXABLE PRODUCTION INCOME DERIVE IN CANADA WHICH WILL HAVE EFFECT OF REDUCING THE "EFFECTIVE" STATUTORY UNCLASSIFIED

PAGE 03 STATE 095822

FEDERAL RATE FROM 50 PERCENT TO 30 PERCENT FOR PETROLEUM PROFITS AND TO 25 PERCENT ON MINERAL PROFITS. DEPLETION ALLOWANCES REDUCED TO MAXIMUM RATE OF 25 PERCENT OF PRODUCTION INCOME INSTEAD OF PRESENT 33 AND ONE-THIRD PERCENT. MEASURES WILL INCREASE TAX LIABILITY FROM MINING INDUSTRY BY C\$40 MILLION AND FROM OIL AND GAS SECTOR BY C\$410 MILLION.

(B) TEN PERCENT CORPORATE SURTAX: A 10 PERCENT SURTAX ON FEDERAL CORPORATE INCOME TAX WAS PROPOSED FOR A ONE-YEAR PERIOD WITH EXEMPTIONS FOR SMALL BUSINESSES AND MANUFACTURING AND PROCESSING PROFITS. PRODUCTION PROFITS OF MINING AND PETROLEUM CORPORATION WERE ALSO

EXEMPTED AS TURNER SAID THEY WOULD BEAR HIGHER TAXES BECAUSE OF OTHER PROPOSALS. MANUFACTURERS AND PROCESSORS WERE EXEMPTED BECAUSE THEY "CONTINUE TO BE VULNERABLE TO FOREIGN COMPETITION AS A RESULT OF THE EXTENSIVE USE BEING MADE OF THE U.S. DISC TAX PROVISIONS, THE FAVORABLE TAX TREATMENT PROVIDED TO MANUFACTURERS IN OTHER COUNTRIES AND THE INTENSIFIED PRESSURES THEY HAVE FACED FROM ABROAD MORE RECENTLY FOLLOWING THE INCREASED IN OUR EXCHANGE RATE." TURNER ADDED THAT REDUCED TAX RATE ON MANUFACTURING AND PROCESSING PROFITS ADOPTED LAST YEAR SHOULD BE CONTINUED. SURTAX EXPECTED GENERATE C\$150 MILLION REVENUE THIS FISCAL YEAR.

(C) FINANCIAL INSTITUTIONS: TURNER SAID PROFITS OF FINANCIAL INSTITUTIONS HAVE INCREASED SUBSTANTIALLY AND THAT HE, THEREFORE, PROPOSING TO REDUCE LEVEL OF TAX-FREE RESERVES FROM 1.5 PERCENT TO ONE PERCENT OF ELIGIBLE ASSETS FOR ALL FINANCIAL INSTITUTIONS. MEASURE WILL PRODUCE C\$40 MILLION IN REVENUE THIS FISCAL YEAR.

(D) HIGH ENERGY VEHICLES: TO ECONOMOIZE ON USE OF PETROLEUM, SPECIAL EXCISE TAX TO BE INTRODUCED ON "HIGH ENERGY-CONSUMING PASSENGER CARS AND OTHER TYPES OF ENERGY-CONSUMING VEHICLES. THIS WILL INCLUDE LARGE, HEAVY CARS, HIGH-POWER MOTORCYCLES, PRIVATELY OWNED AIRCRAFT AND LARGE POWER BOATS". TAX WILL YIELD C\$10 MILLION IN REVENUE THIS YEAR.
UNCLASSIFIED

PAGE 04 STATE 095822

(E) LIQUOR AND TOBACCO: FEDERAL LEVIES ON CIGARETTES, CIGARS, TOBACCO, SPIRITS OTHER THAN BEER, AND WINE OTHER THAN CIDER WILL BE INCREASED BY 15 PERCENT, PROVIDING ADDITIONAL REVENUES OF C\$100 MILLION THIS YEAR.

(F) TAX PAYMENTS: TIMING OF FINAL CORPORATE TAX PAYMENT CHANGED FROM MARCH 31 TO FEBRUARY 28, THEREBY ENSURING RECEIPT BEFORE END OF FISCAL YEAR. SPEED-UP WILL INCREASE REVENUES BY C\$200 MILLION THIS FISCAL YEAR.

4. MEASURES REDUCING REVENUES

(A) INCOME TAX REDUCTION: A C\$50 TAX CUT PROPOSED FOR LOWER-INCOME TAXPAYERS WILL REMOVE 300,000 FROM TAX ROLLS THIS YEAR. THIS IS ACHIEVED BY INCREASING MINIMUM AMOUNT OF LAST YEAR'S 5 PERCENT TAX CUT TO C\$150 FROM C\$100.

(B) INTEREST DEDUCTION: TO ENCOURAGE PERSONAL SAVINGS, TURNER PROPOSED DEDUCTION OF UP TO C\$1,000 IN INTEREST INCOME IN COMPUTING TAXABLE INCOME, THEREBY REDUCING

REVENUES C\$100 MILLION THIS YEAR.

(C) SALES TAX REDUCTIONS: TWELVE PERCENT FEDERAL SALES TAX WILL BE REMOVED ON ALL CLOTHING, FOOTWEAR AS WELL AS ON BUSES AND OTHER PUBLIC PASSENGER TRANSPORTATION EQUIPMENT PURCHASED BY LOCAL GOVERNMENT, AND ON BICYCLES. THE MEASURES WILL REDUCE REVENUES BY C\$390 MILLION.

(D) TOURIST ALLOWANCES: QUARTERLY TOURIST ALLOWANCE AVAILABLE AFTER ABSENCE FROM CANADA OF 48 HOURS WILL BE DOUBLED TO C\$50 FROM C\$25. ANNUAL EXEMPTION WILL BE INCREASED TO C\$150 FROM C\$100 AND MINIMUM PERIOD OF ABSENCE REQUIRED TO QUALIFY FOR ANNUAL EXEMPTION WILL BE REDUCED FROM 12 DAYS TO 7 DAYS. REVENUE LOSS PROJECTED AT C\$10 MILLION.

(E) TEMPORARY TARIFF REDUCTION EXTENSION: TURNER
UNCLASSIFIED

PAGE 05 STATE 095822

SAID THAT BECAUSE OF FORTHCOMING MULTILATERAL TRADE NEGOTIATIONS, ONLY A FEW AMENDMENTS WOULD BE MADE TO CUSTOMS TARIFF AT THIS TIME. BECAUSE OF DELAY IN GATT, TIMETABLE WITH FEW EXCEPTIONS (CATTLE AND BEEF, CANNED FRUITS, CERTAIN FRESH FRUITS INCLUDING FRESH PEACHES, AND VEGETABLES, AND CITRUS JUICES) TEMPORARY TARIFF REDUCTIONS FIRST PROPOSED IN FEBRUARY 1973 BUDGET WILL BE EXTENDED UNTIL DECEMBER 31, 1974.

(F) CANADA SAVINGS BONDS: CASH BONUSES WILL BE MADE PAYABLE ON ALL CANADA SAVINGS BONDS TO BRING THE AVERAGE ANNUAL YIELD TO MATURITY TO 9 PERCENT.

5. TURNER ALSO ANNOUNCED SEVERAL MEASURES AFFECTING THE HOUSING FIELD. AFTER REJECTING OPPOSITION DEMANDS FOR ELIMINATION OF THE FEDERAL SALES TAX ON BUILDING MATERIALS AS BEING A MEANS OF OVER-STIMULATING DEMAND, TURNER SAID THAT TAXES WOULD BE INCREASED ON UNDEVELOPED LAND TO ENCOURAGE ITS RELEASE FOR HOUSING; SALES TAXES WOULD BE REMOVED ON "ALL MAJOR CLASSES OF CONSTRUCTION EQUIPMENT PURCHASED BY CONTRACTORS AND LOCAL GOVERNMENTS"; INTRODUCTION OF A REGISTERED HOME OWNERSHIP SAVINGS PLAN PERMITTING DEDUCTION BY CONTRIBUTIONS OF C\$1,000 PER YEAR BY TAXPAYERS TO A LIFETIME MAXIMUM OF C\$10,000, WHICH TURNER SAID WOULD HELP REDUCE CURRENT SPECULATIVE PRESSURES ON HOUSING PRICES; AND MEASURES THAT WOULD REQUIRE HIGHER DOWNPAYMENTS FOR VERY EXPENSIVE HOMES.

6. ALL MEASURES CONSIDERED, CASH REQUIREMENTS FOR THE FISCAL YEAR (EXCLUDING FOREIGN EXCHANGE TRANSACTIONS)

WILL BE ABOUT C\$2 BILLION OR ROUGHTLY EQUIVALENT TO THE
LAST FISCAL YEAR. BUDGETARY DEFICIT IS FORECAST AT
C\$450 MILLION COMPARED WITH C\$1 BILLION LAST YEAR. THE
NATIONAL ACCOUNTS DEFICIT IS FORECAST AT C\$160 MILLION
COMPARED WITH C\$500 MILLION LAST YEAR.

7. TURNER WAS INTERRUPTED FREQUENTLY WITH PREDICTABLE
SUPPORING APPLAUSE FROM LIBERAL SIDE AND JEERS FROM
OPPOSITION, PARTICULARLY NDPM AT CONCLUSION
UNCLASSIFIED

PAGE 06 STATE 095822

OF TURNER'S PRESENTATION, LAMBERT (PC MEMBER
FROM EDMONTON WEST) COMMENTED BRIEFLY FOR OPPOSITION.
(NDP LEADERS AND MOST LIBERAL MEMBERS LEFT THE FLOOR
AS HE SPOKE.) LAMBERT CRITICIZED GOVERNMENT FOR HAVING
"SHAVEFULLY NEGLECTED" INFLATION PROBLEM UP TO NOW,
DECRIED FACT THAT MATTERS HAVE COME TO SUCH A STATE
THAT FINANCE MINISTER MUST "BRIBE" CANADIANS TO BUY
CANADIAN SAVINGS BONDS, SAID SOME OF TURNER'S PROPOSALS
HAVE SUPERFICIAL APPEAL AND SOME MAY ACTUALLY HAVE
MERIT BUT ON THE WHILE THEY DO NOT HIT AT THE SOURCE
OF INFLATION AND CAN BE COMPARED WITH APPLYING BAND-
AIDS TO HELP PATIENT FROM BLEEDING TO DEATH. LAMBERT
SAID TURNER REJECTED IDEA OF COMPREHENSIVE INCOMES
POLICY IN FAVOR OF PALLIATIVES; HE APPEARS TO BE TELLING
CANADIAN PEOPLE HE WILL HELP THEM TO OUTRUN INFLATION,
MEANWHILE HOPING PROBLEM WILL GO AWAY AND RELIEVE
GOVERNMENT OF NEED FOR DIFFICULT DECISIONS. LAMBERT
THEN MOVED FOR ADJOURNMENT TO ALLOW TIME FOR FULLER
CONSIDERATION OF BUDGET SPECIFICS.

8. HOUSE LEADER MACEACHEN ANNOUNCED THAT DEBATE ON
BUDGET WOULD BEGIN TUESDAY, MAY 7.
PORTER
UNQTE RUSH

UNCLASSIFIED

<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: X
Capture Date: 27 JUL 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET, INFLATION, PROFITS, ANTIINFLATIONARY PROGRAMS, EXCISE TAXES, INCOME TAXES, TAX CHANGES, GOVERNMENT REVENUES, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 09 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE095822
Document Source: ADS
Document Unique ID: 00
Drafter: EB/OT/TA:WTADAMS:MAM
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: D740113-0724
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740588/abbrzctc.tel
Line Count: 256
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ORIGIN EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 30 OCT 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <30 OCT 2002 by shawdg>; APPROVED <06 JAN 2003 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FEDERAL BUDGET FIGHTS INFLATION
TAGS: ECON, EFIN, CA, (TURNER, JOHN)
To: GENEVA
OECD PARIS
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005